



Would you like coffee with your oil change?

Presenters

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Venue

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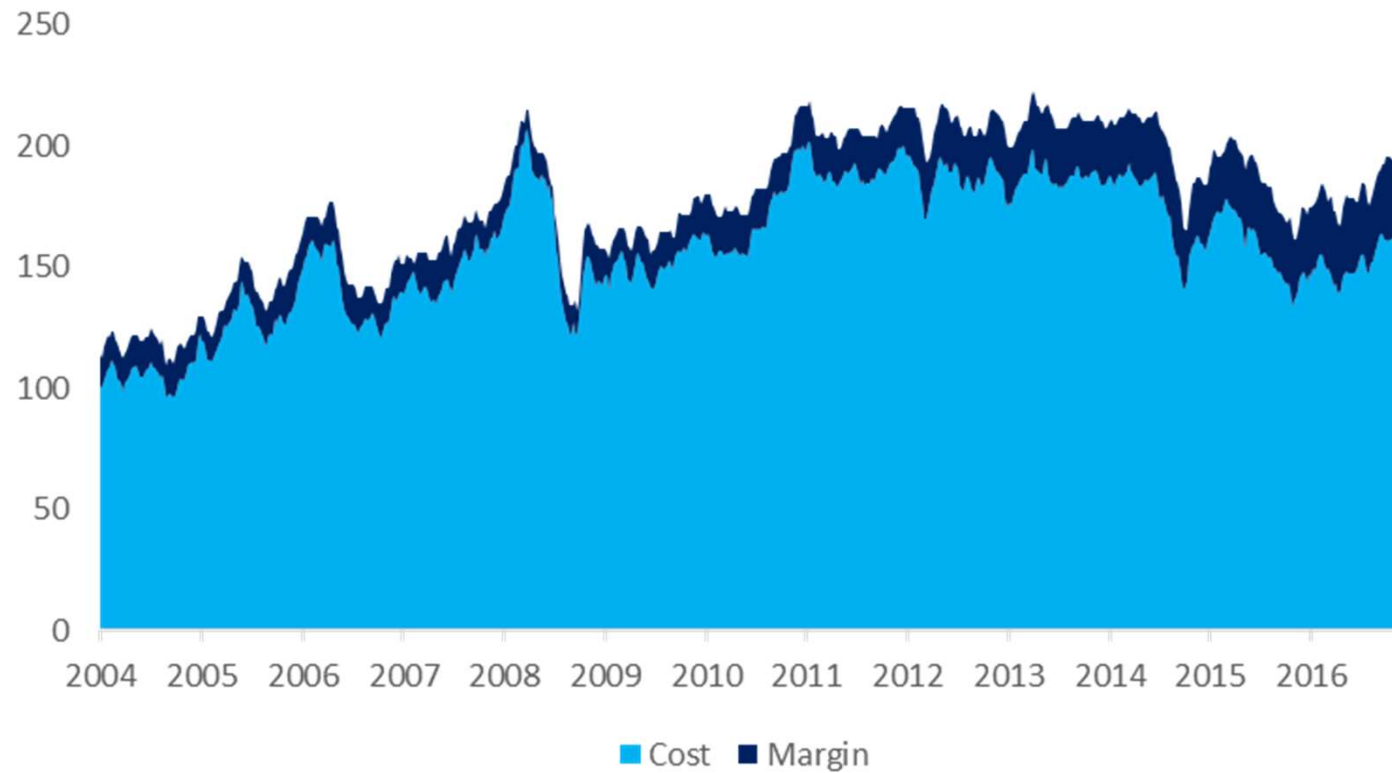
Outline

- Study background
- Approach
- Defining “reasonable” prices – three-limb test
- Findings, conclusions and recommendations

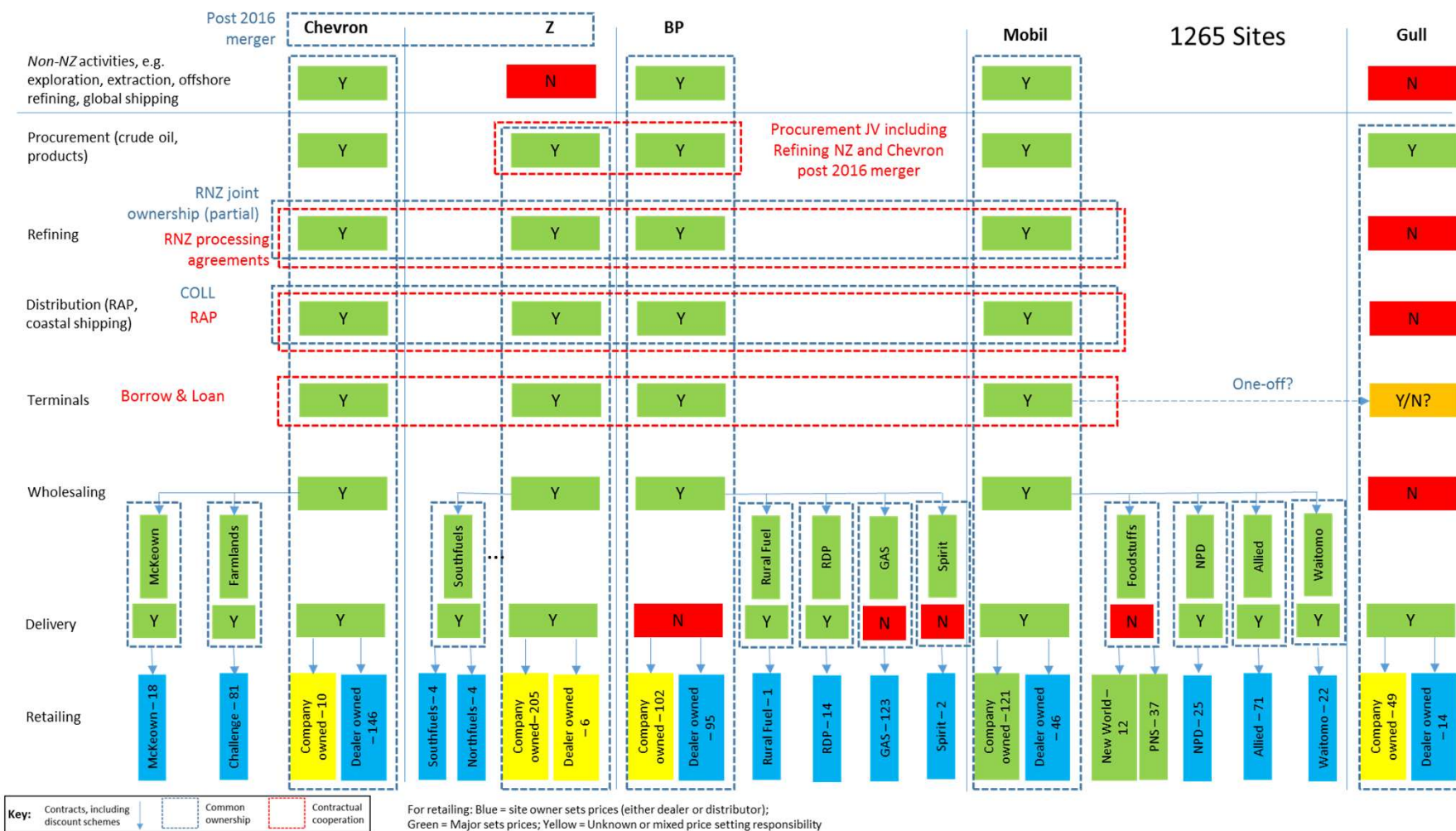
Study background

- MBIE monitoring margins for many years
- Previous studies have concluded market is competitive
- Z acquired Chevron: ComCom cleared, but minority of opinion coordination was happening. Majority said that coordination was possible, but not a determinative factor in merger
- Margins increasing, MBIE advised Minister that they now appear well above normal

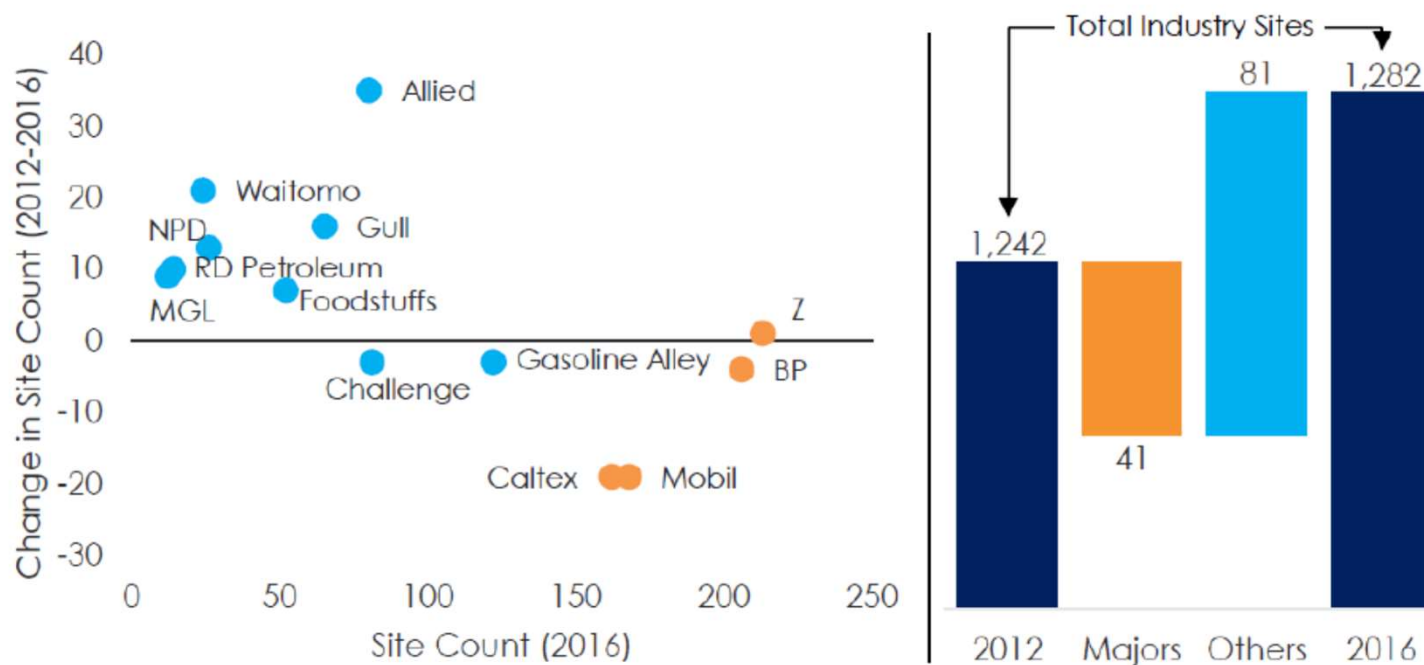
Study background



The Industry



Rise of the independents



Source: Z Energy (used with permission).

Our task

Our study addressed three questions:

1. Are retail fuel prices reasonable?
2. What factors could explain regional differences in those prices?
3. Is there evidence of cross-subsidisation between products and markets?

Defining “reasonable” prices

- Avoid false standard of textbooks: long-run perfect competition
- Recognise we are dealing with a necessarily imperfectly competitive industry in constant “short-run”
- Real question is “do we have more imperfection than there needs to be?”

A three-limbed test

1. Is there some feasible alternative fuel industry,
2. In which structure and conduct result in better prices for consumers, and
3. For which the benefits of changing to that counterfactual industry exceed the costs?

If clear yes to all three, prices unreasonable

If clear no to one, prices reasonable

Findings

- Retail margins have increased over the study period – more so in Wellington and South Island
- Margins for other business areas were flat or declining
- Increases not apparently associated with increased investments

Conclusion

We cannot definitely say that fuel prices in New Zealand are reasonable, and we have reason to believe that they might not be. There are features of the current market structure and conduct that are of concern.

Why?

Element	Is the issue material	Cause for concern	Could it be addressed	Would benefits exceed costs	Recommendation
Terminal access	Yes	Probably	Possibly	Unclear	Discuss the design of a liquid wholesale market with industry.
MPP	Possibly	Yes	Yes	Yes	Discuss with Z Energy.
B&L transparency	Possibly	Possibly	Yes	Probably	Discuss with industry.
Refinery arrangements	Probably	Probably	Unclear	Unclear	Investigate further.
Product differentiation	Possibly	Unclear	Unclear	Unclear	Investigate further.
Cross-subsidies	Possibly	Unclear	Unclear	Unclear	Investigate further.

Source: NZIER, Cognitus, Grant Thornton